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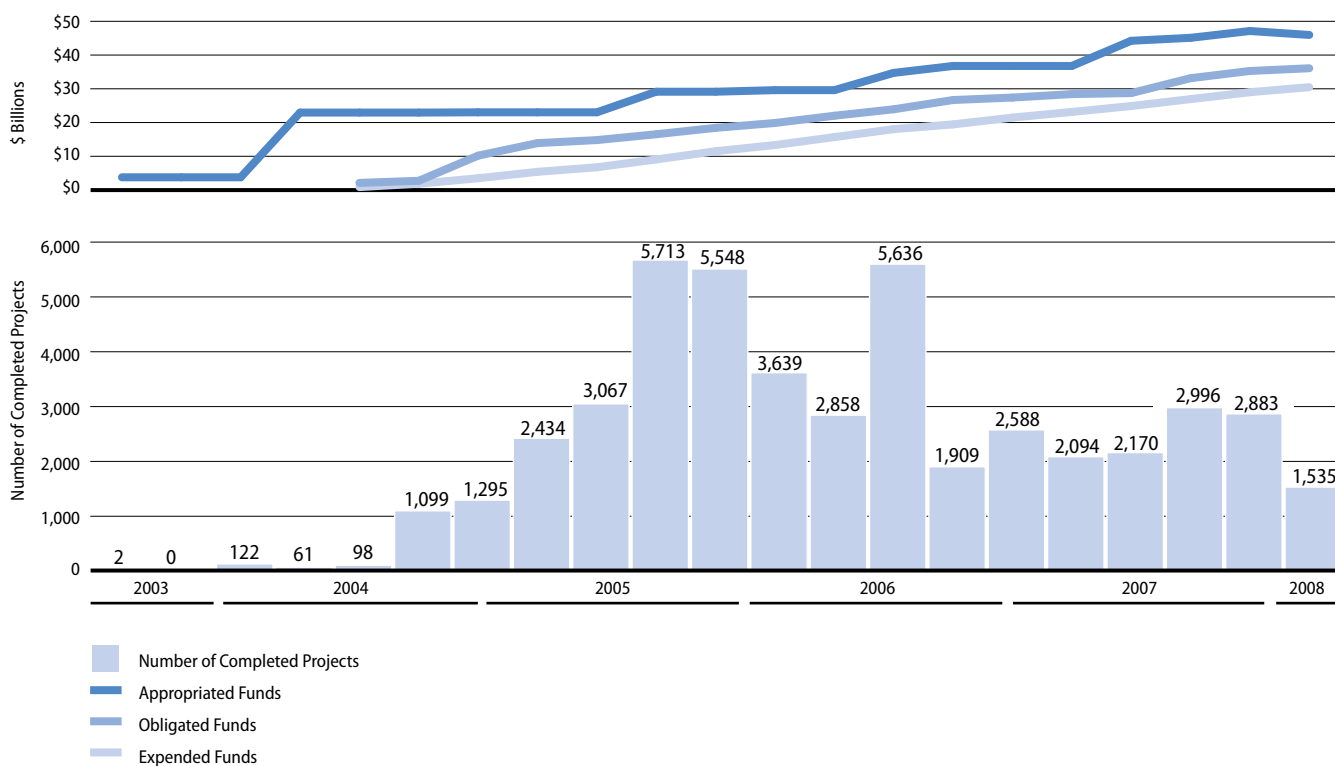
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Figure 1.1

## FIVE YEARS OF U.S. RECONSTRUCTION FUNDING

\$ Billions

Source: SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, March 2004–January 2008; USAID, Response to SIGIR Data Call, (4/8/2008); GRD, Response to SIGIR Data Call (4/2/2008); Treasury, Response to SIGIR Data Call (4/3/2008); USTDA, Response to SIGIR Data Call (4/3/2008); DoS Response to SIGIR Data Call (4/5/2007); WHS, Response to SIGIR Data Call, (4/1/2008); DFAS Response to SIGIR Data Call (4/10/2008); DoS, *Iraq Weekly Status* (3/26/2008); ITAO, Response to SIGIR Data Call (1/4/2008); GRD, Response to SIGIR Data Call (4/3/2008); USAID, Response to SIGIR Data Call (4/14/2008); ITAO, *Essential Indicators Report* (3/27/2008); MNC-I, Response to SIGIR Data Call (4/9/2008)



**Note:** Financial data includes obligations and expenditures from the IRRF 1, IRRF 2, ISFF, ESF, CERP, and INL fund types. Project data includes projects from the IRRF 2, ISFF, ESF, and CERP.

## IRAQ RECONSTRUCTION: FIVE YEARS ON

This 17<sup>th</sup> Quarterly Report from SIGIR marks almost exactly five years since the Congress passed Public Law 108-11, appropriating \$2.48 billion to the Iraq Relief and Reconstruction Fund (IRRF)—the first significant tranche in what now amounts to over \$46 billion in U.S. aid for Iraq. Seven months later, in November 2003, the Congress appropriated another \$18.44 billion to the IRRF.

Over the past half-decade, this nearly \$21 billion fund served as the primary vehicle for U.S. direct investment in Iraq's infrastructure. Other funds have supplemented the IRRF, including the Iraq Security Forces Fund (ISFF, \$15.44 billion), the Commander's Emergency Response Program

(CERP, \$2.66 billion), and the Economic Support Fund (ESF, \$3.21 billion).

The U.S. reconstruction effort initially emphasized large-scale infrastructure projects. As the program evolved, an ever-increasing portion of the U.S. investment went into non-construction or "soft programs," supporting democracy and governance, operations and maintenance, training, and equipment. To date, the United States has expended about half of its reconstruction funds on non-construction programs.

Figure 1.1 shows the use of the \$46.3 billion that the Congress appropriated for Iraq's relief and reconstruction from 2003 through 2007.

## UPDATING THE YEAR OF TRANSFER

Last quarter, SIGIR identified 2008 as the **Year of Transfer** in Iraq reconstruction. This quarter saw some advances on these Year of Transfer benchmarks:

- transferring full responsibility for reconstruction planning, management, and funding to the Government of Iraq (GOI)
- improving the plan for transferring U.S.-funded assets to the GOI
- completing the transfer of provincial security responsibilities to Iraqi control

In early April, General David Petraeus, Commanding General of the Multi-National Force-

Iraq, and Ambassador Ryan Crocker, the Chief of Mission in Iraq, testified before several House and Senate committees, reporting progress on many fronts in Iraq, including relief and reconstruction. Their testimony underscored the current reality in Iraq—namely, that the United States no longer is the prime mover in funding or managing relief and reconstruction. The various governments of Iraq—central, regional, and local—are assuming those responsibilities with U.S. advisory assistance.

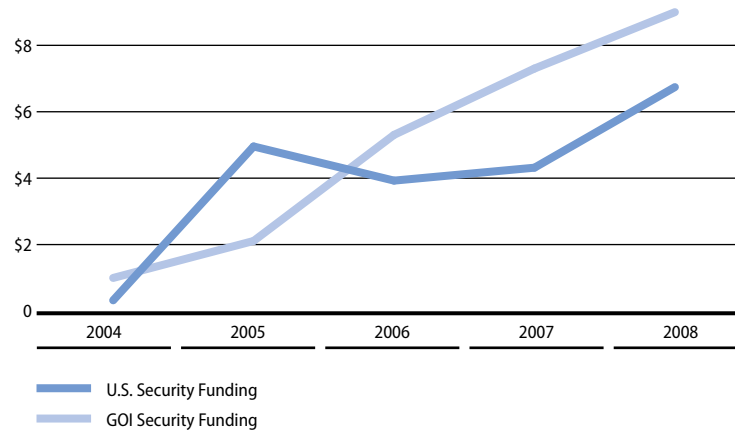
Notwithstanding this important development, the United States still provides substantial targeted financial support, most notably to

Figure 1.2

## FIVE YEARS OF IRAQI SECURITY FUNDING

\$ Billions

Source: SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, March 2004–January 2008; MNSTC-I, Response to SIGIR Data Call (4/17/2008); DoS, *Iraq Weekly Status Report* (3/26/2008); ITAO, Response to SIGIR Data Call (1/4/2008); GRD, Response to SIGIR Data Call (4/3/2008); USAID, Response to SIGIR Data Call (4/14/2008); ITAO, *Essential Indicators Report* (3/27/2008); MNC-I, Response to SIGIR Data Call (4/9/2008)



**Note:** Includes expenditures from the IRRF 2, ISFF, ESF, and CERP. See Appendix D for a sector cross-reference to Security.

Iraq's security sector and to capacity-building programs. Approximately \$10 billion in U.S. relief and reconstruction money remains to be obligated, of which 43% is in the ISFF for the support of the Iraqi Security Forces (ISF). The Multi-National Security Transition Command-Iraq (MNSTC-I) manages ISFF programs to help the Ministries of Interior and Defense provide training, facilities, and equipment to the ISF.

## TRANSFER OF FUNDING RESPONSIBILITY

In 2003–2004, U.S. contributions comprised more than 50% of the funds used for Iraq's reconstruction—about \$23 billion—while \$16 billion in Iraqi money was spent for this purpose, coming from the Development Fund for Iraq (DFI), Iraqi budgets, and seized and vested Iraqi funds.

By 2007, the burden for funding reconstruction had shifted to the GOI: Iraq's capital budget last year allocated \$10 billion for relief and reconstruction, while the U.S. provided \$9 billion

in new money, most of which supported the ISF. In Iraq's 2008 budget, the GOI committed more than \$13 billion for capital investment. Figure 1.2 shows the U.S. and Iraqi shares of Iraq reconstruction funding.

Iraqi oil income, forecasted in 2003 to be the primary pool of capital for post-war reconstruction, now has become the chief funding source for the country's infrastructure investment program. The oil revenue windfall clearly manifested itself this quarter. Oil income since January 1, 2008, exceeded \$18 billion, as outputs and exports maintained post-invasion record levels and the price per barrel reached historic highs.

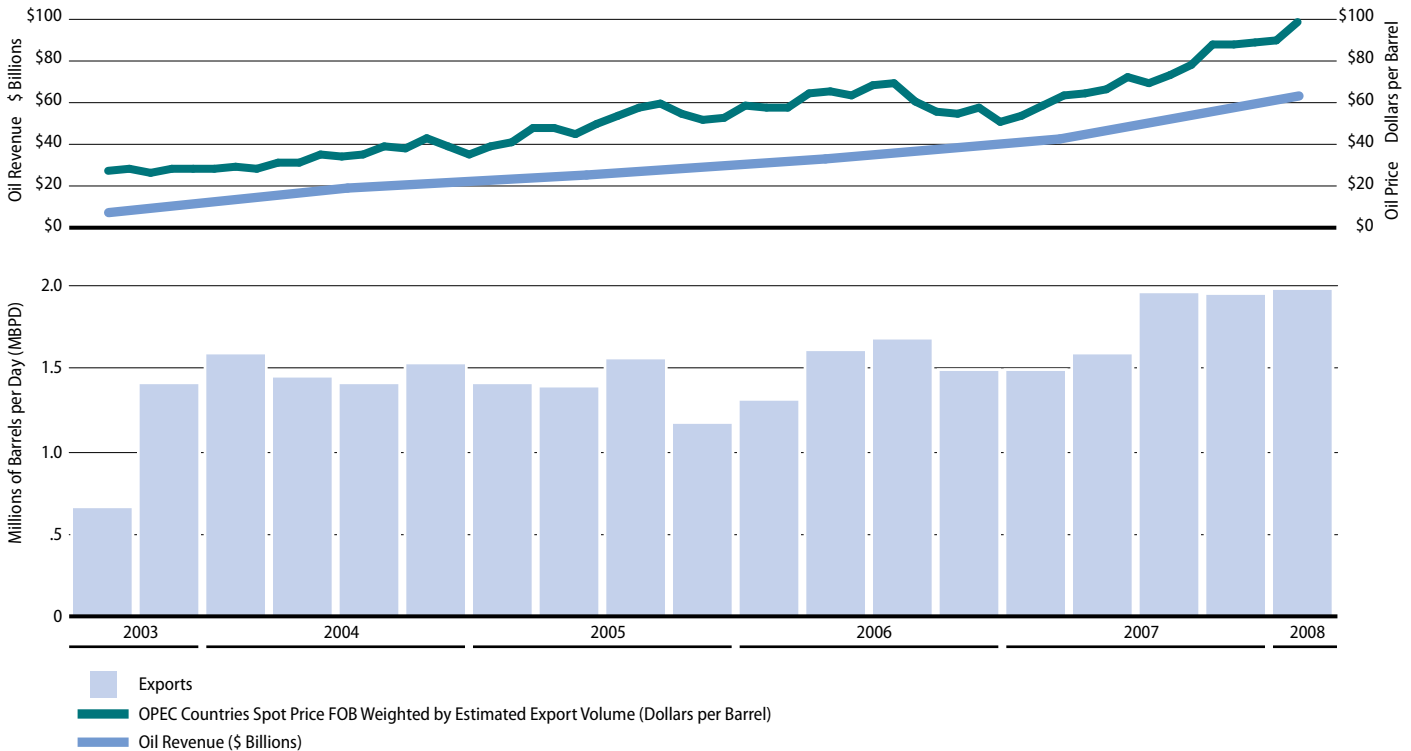
Since 2003, the cost for a barrel of Iraqi oil—which is lower than the prevailing OPEC rate—increased by 250%.<sup>1</sup> If prices, outputs, and exports continue at current levels, oil revenues for 2008 could reach \$70 billion,<sup>2</sup> double what the GOI anticipated.

The rise in Iraq's oil revenues began in 2007 when the GOI collected \$41 billion in oil

Figure 1.3

**FIVE YEARS OF IRAQI OIL REVENUE**

Millions of Barrels per Day (MBPD), Dollars per Barrel, \$ Billions

Source: DoS, *Iraq Weekly Status*, (1/5/2006), (1/4/2006), (4/2/2008); ITAO, *Monthly Import, Production and Export Spreadsheet* (April 2008); U.S. Energy Information Administration, "World Crude Oil Prices: OPEC Average," (4/11/2008)

**Note:** NEA-I, response to SIGIR data call, April 16, 2008, noted that ITAO's oil data for Iraq differs from NEA-I data for production, exports, and refined fuels.

<sup>a</sup> Iraq does not receive the OPEC average for its oil. Average price for Iraqi crude oil in 2003 was \$25.91 per barrel and \$91.66 per barrel in the first quarter of 2008. Source: NEA-I, response to SIGIR data call, April 16, 2008.

revenue, 27% higher than anticipated estimates. Monthly oil income more than doubled during 2007, rising from \$2.4 billion in January to \$5.3 billion in December.

Figure 1.3 presents a five-year overview of Iraq's oil revenue, production, and exports.

The significant increase in Iraq's 2008 national income underscores the importance of improving the GOI's capacity to execute its budgets, especially its capital budgets. According to the U.S. Embassy in Iraq, the GOI executed 67% of its overall 2007 budget, a significant improvement over 2006, when it executed just 23%.

Iraq's ministries spent their *capital* budgets at a much lower rate last year, expending only

51%, or about \$4 billion. Similarly, the provincial governments across Iraq experienced challenges expending capital budgets in 2007, reportedly executing at an average rate of about 31%.

Deputy Prime Minister Barham Salih said this quarter that the GOI will issue a supplemental budget later this year to appropriate the new oil income. This supplemental budget presents an extraordinary opportunity for Iraq to expand its infrastructure investment, but it also heightens concerns about corruption.

Iraq's burgeoning economic situation accentuates how important it is that 2008 truly becomes "The Year of Reconstruction and Anticorruption," as Prime Minister Maliki dubbed it in

January. The Prime Minister's recent comments during trade-talks in Belgium with the European Parliament may have reflected an interesting effect of the oil windfall. "We are a rich country," he said. "We don't need funds; we need technical assistance."<sup>3</sup>

### TRANSFER OF RECONSTRUCTION ASSETS

An effective asset-transfer program is essential to securing the long-term viability of the U.S. investment in Iraq. SIGIR audits previously reported that this investment could be vulnerable to waste if the GOI fails to adequately fund the operations and maintenance of U.S.-provided relief and reconstruction projects.

This quarter, SIGIR released its fifth review assessing the process governing the transfer of U.S.-provided assets to Iraqi control. The audit found that the GOI and the United States have yet to agree on a new asset-transfer program, which SIGIR recommended as necessary in a July 2007 audit. Further, SIGIR concluded that the U.S. interagency process for asset transfer needs clearer management accountability measures for the American agencies involved.

### NASSRIYA WATER TREATMENT PLANT INSPECTION

SIGIR inspected the largest U.S. reconstruction project (by cost) in Iraq this quarter, the **Nassriya Water Treatment Plant**, which is located about 200 miles south of Baghdad. The assessment report, contained in Section 3, provides a detailed look at the challenges confronting the transfer of significant assets to GOI control.

The water treatment plant is part of the \$277 million Nassriya Water Supply project that Fluor/AMEC designed to produce 10,000 cubic meters of potable water per hour for 500,000 Iraqis in five cities. Although the contractor executed a good project, SIGIR found the plant producing at only 20% of capacity because the GOI had failed to install a permanent and reliable power source and had not ensured the presence of an adequate number of qualified staff. Moreover, the plant was providing potable water to just three of the five cities that it is supposed to serve.

These are the primary problems identified by the inspection:

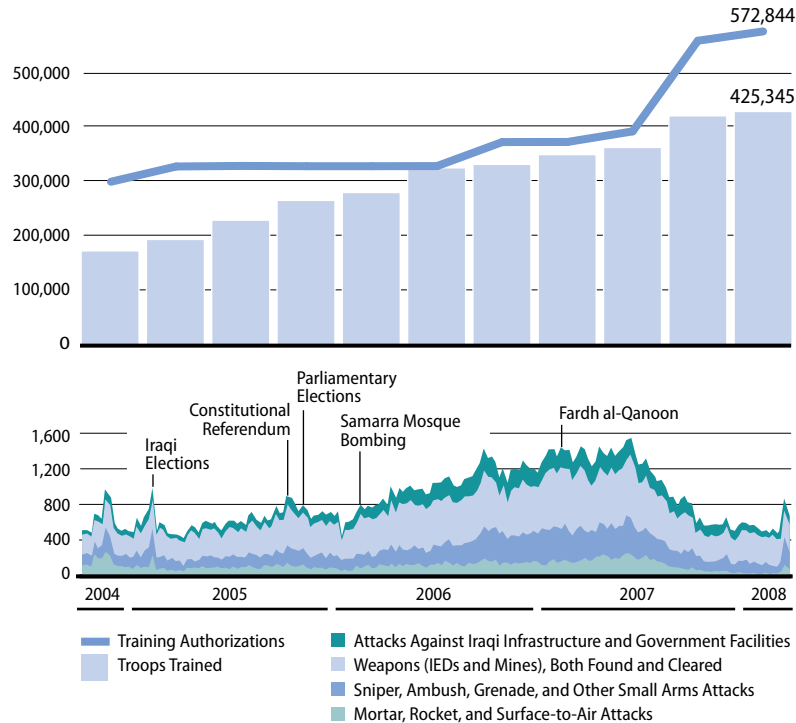
- The plant has no reliable nor permanent power source.
- The antiquated distribution systems suffer regular breakdowns because they cannot withstand the higher pressure flows engendered by the modern plant.
- There were illegal taps on one of the water transmission lines.
- Plant staff were poorly qualified and unwilling to attend contractor-provided training.

To address these problems, the Embassy's Iraq Transition Assistance Office, the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers, and the Ministry of Municipalities and Public Works have formed a joint technical assessment team to devise potential solutions. Since SIGIR's site visits to the plant, the assessment team has implemented several improvements. For example, the plant is now reportedly producing potable water at about 6,000 cubic meters per hour. Despite this rapid progress, the GOI still

Figure 1.4

**IRAQI TROOP TRAINING AND AUTHORIZATIONS**

Sources: DoD, *Measuring Security and Stability in Iraq*, July 2005, October 2005, February 2006, May 2006, August 2006, November 2006, March 2007, June 2007, September 2007, December 2007, and March 2008; Testimony of General David H. Petraeus (4/8/2008)



must find long-term solutions to the problems of inadequate power, broken distribution lines, and poorly qualified staff.

## TRANSFER OF SECURITY

Progress on the security front this quarter has been significant but uneven. The U.S. military surge reduced attacks in the areas it targeted, but the security situation remains volatile.<sup>4</sup> Current U.S. security plans call for the withdrawal of the surge brigades by July 2008, after which MNF-I will enter a 45-day “consolidation and evaluation” period.<sup>5</sup> GRD reports that it will monitor the effect of force reductions on reconstruction security.

U.S. training of the ISF continues at a rapid pace: DoD reports that nearly 20,000 troops were trained this quarter, and it estimates that more than 425,000 personnel now serve in the ISF.<sup>6</sup>

A new SIGIR audit underscores the difficulty in obtaining reliable data on the numbers of available, authorized, and trained ISF personnel. SIGIR’s review found that:

- The shortage of officers and non-commissioned officers in the ISF remains a significant problem that could take years to remedy.
- More ISF personnel are needed to support the development of a counterinsurgency force that is capable of maintaining internal security.
- The ISF still relies on substantial logistics support from Coalition forces.
- The problems of internal security have shaped training priorities, and thus the force structure necessary to counter external threats requires more development.

Figure 1.4 is an overview of five years of training Iraqi troops.

## ISF BUDGET (\$ BILLIONS)

	2007	2008
United States	\$5.54	\$3.00
GOI	\$7.32	\$9.00

Source: MNSTC-I, response to SIGIR data call, April 12, 2008.

TABLE 1.1

Iraq projects that it will spend \$9 billion this year on security and expects to spend \$11 billion in 2009. In his April testimony before the Congress, General Petraeus noted that U.S. requests for the ISFF for FY 2009 have subsequently been reduced to \$2.8 billion from \$5.1 billion in FY 2008.<sup>7</sup> The United States currently is providing 25% of the funding for ISF (down from 43% in 2007).<sup>8</sup> For an overview of support for the ISF budget, see Table 1.1.

This quarter, no new Iraqi provinces transitioned to Provincial Iraqi Control (PIC). The last province to transfer was Basrah, which was turned over in December 2007. During late March and early April, Basrah was the site of significant violence and consequent military operations by the ISF against militia and criminal elements.

## THE STATUS OF KEY LEGISLATION

The GOI made legislative progress this quarter, most notably by passing the 2008 national budget and the Provincial Powers Law. The Regions Law also became effective in mid-April. But important legislation remains at an impasse, including the Elections Law and the Hydrocarbon Law.

### PROVINCIAL POWERS LAW

The **Provincial Powers Law**, approved in February, includes a provision, inserted from the Elections Law, requiring that provincial, district, and municipal elections take place before October 1, 2008.<sup>9</sup> The law further defines the relationships

between local and national governments, including what financial, administrative, and legislative authority devolves to the local level. Notwithstanding the provision of a provincial election deadline, several significant legislative hurdles must be cleared before provincial elections could occur. These include establishing appropriate electoral oversight, developing standards for voter eligibility, and ensuring adequate funding. The pending **Elections Law** embraces many of these matters; it was approved this quarter by the Council of Ministers and forwarded to the Council of Representatives (CoR) for action.<sup>10</sup>



## HYDROCARBON LAW

The **Hydrocarbon Law**, which is a package of four pieces of legislation, would reform Iraq's oil industry, define its new regulatory structure, and establish a national revenue distribution system. Progress on this legislative package has been erratic, but there were some indicators of movement in recent weeks. The **Framework Law**, which would provide a new national entity for managing Iraq's oil sector, is now before a CoR committee, and the **Revenue Distribution Law**, which would determine the national distribution process for oil revenue, is with the Council of Ministers.

## REGIONS LAW

On April 12, Iraq's law governing the formation of regions became effective, ending an 18-month suspension imposed in October 2006. The law permits one or more provinces to form a region, which would be governed by a legislative council possessing significant authority to pass laws that could supersede national legislation. The 2005 Iraqi Constitution provided regional authority to the provinces that comprise Kurdistan. Now, any of Iraq's other provinces can secure those same powers by meeting the legal requisites for regionalization, which include an affirmative plebiscite in favor of forming a region, electing a legislative council, and approval by the CoR. Several political leaders in Basrah have expressed interest in forming a Shia region in the south.

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## FIGHTING CORRUPTION

A new SIGIR audit released this quarter found that the Department of State (DoS) and the U.S. Embassy in Iraq are taking important steps toward implementing a new anticorruption management plan to support Iraq's efforts to fight corruption. On March 11, 2008, the DoS appointed an ambassador-level official as the new Coordinator for Anticorruption Initiatives in Iraq.

The Embassy drafted a preliminary Anticorruption Strategy Framework and completed an initial inventory of all U.S.-funded anticorruption programs, both of which actions addressed outstanding SIGIR recommendations. SIGIR will continue to report on this important issue over the coming quarters.

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# IRAQ RECONSTRUCTION UPDATE

SIGIR produced its fifth focused contract review this quarter, auditing the \$500 million contract awarded to the Perini Corporation for electrical work in Iraq. The contract comprised 11 task orders, and \$123 million was expended on them. Five task orders were completed, but several of these were significantly descoped: that is, they achieved much less than originally expected.

The United States terminated another five because Perini's costs were too high or project delays were too long. One task order paid for Perini's overhead, which SIGIR found to be notably high. A series of smaller direct contracts with local and regional contractors completed much of the work originally planned under this large design-build contract.

SIGIR issued an update this quarter on its continuing review of the Dyncorp contract for police training, which is overseen by the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL). SIGIR found that INL has made progress in implementing previous audit recommendations, including executing plans

to recover contested costs, developing complete contract files, and reconciling invoices. INL continues to take steps to recompetite the Dyncorp contract, which should occur in 2009.

SIGIR carried out a review this quarter of terminated contracts and task orders, finding that the U.S. government has terminated 855 contracts and task orders, either for default or for convenience, during the course of the Iraq reconstruction program. The government sometimes significantly modifies contracts and task orders that incur problems by reducing the required scope of work. These descoping actions could amount to constructive terminations because the contractor did not complete the originally anticipated work. Thus, the number of *de facto* contract terminations may be much higher. SIGIR will expand this review next quarter to look at termination decisions in more detail, examining the percentage of work completed before termination and the costs related to decisions to terminate. See Section 3 for details on this quarter's audits.

## SIGIR UPDATES

### SIGIR OBSERVATIONS: FIVE YEARS ON

Since SIGIR's inception, Section 1 of SIGIR's Quarterly Reports has sought to provide helpful observations on the most salient issues confronting the Iraq program, including:

1. The absence of an effective interagency database on Iraq reconstruction project and contract data, which prompted the creation of the Iraq Reconstruction Management System (April 2005).
2. The need to ensure that Iraq's government is prepared to operate and maintain—and thus sustain—U.S.-provided projects (July 2005).
3. The corruption within the Government of Iraq, which amounts to a “second insurgency” (October 2005).
4. The various factors that caused the “reconstruction gap” within the U.S. program—the difference between what was planned and what was built (October 2005).
5. The impact of weak infrastructure security on electricity and oil outputs and the need to develop better protection for infrastructure nodes (April 2006).
6. The requirement for agencies to coordinate better on capacity-building programs, which are essential to the effective transition of governance responsibilities to Iraq (July 2006).
7. The interagency challenges impeding the implementation of the Provincial Reconstruction Team program (April 2007).
8. The need for an effective bilateral agreement to ensure the proper transfer of U.S.-funded assets to Iraqi control (July 2007).
9. The varied consequences induced by the significant expansion of the Commander's Emergency Response Program (January 2008).
10. The pending impact of the 2008 Iraqi oil revenue windfall (January 2008).

### SIGIR'S EXPANDED MANDATE

The enactment of the FY 2008 National Defense Authorization Act (NDAA) in late January gave SIGIR new responsibilities, including expanded oversight of funds in the ISFF, ESF, and CERP. Section 842 of the act also directs SIGIR to produce, in consultation with relevant inspectors general, a comprehensive audit plan for federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq. Section 3 addresses these matters in more detail.

SIGIR, in coordination with the DoS Office of Inspector General, continues to pursue a joint audit of the Blackwater Security Company's contract to provide certain personal protective services in Iraq.

### LOOKING AHEAD

In 2008, SIGIR will continue to follow developments in the Year of Transfer, with a special focus on the following:

- the effect of the oil windfall on Iraq's budget

priorities, focusing on the GOI efforts to execute its capital budgets for relief and reconstruction programs

- the progress made by MNSTC-I to stand up Iraq's Army and the Iraqi Police Service, with a particular focus on security provided to provinces with active Provincial Reconstruction Teams
- the effects of the new Regions Law, particularly the potential formation of a new region in the south and how this would reshape Iraq's reconstruction planning
- the progress on a new U.S.-Iraq agreement on the transfer of U.S.-funded assets to Iraqi control

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## LESSONS LEARNED

SIGIR is working on its fourth and final Lessons Learned Report, which will present a detailed examination of the planning and execution of the U.S. relief and reconstruction program and will provide lessons learned and recommenda-

tions for reform. This lessons-learned report, like the previous three, helps SIGIR meet its legislative mandate to provide recommendations on improving the effectiveness and efficiency of the reconstruction program.

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## THE HUMAN TOLL

Overall levels of violence continued to decline this quarter; but in late March, attacks spiked again in certain areas, particularly in the International Zone. U.S. military officials overseeing security in Baghdad report that almost 600 mortars and rockets were fired—most of them toward the International Zone—from March 23 to April 12.<sup>11</sup> GRD reported significant increases in attacks and hostile incidents on reconstruction projects, especially in central and southern Iraq.

- Since 2003, 1,181 death claims for civilian contractors have been filed with the Depart-

ment of Labor. This quarter, the Department reported 58 new death claims.

- DoS reports that 17 U.S. civilians died in Iraq this quarter. Since the beginning of the U.S. reconstruction effort, 258 U.S. civilians have died in Iraq.
- According to the Committee to Protect Journalists,<sup>12</sup> 127 journalists and 50 media support workers have been killed in Iraq since hostilities began in March 2003. This quarter, two journalists were killed in Iraq.